

16B.10 In this Condition:

- (a) "Business" has the meaning given to it in Condition 20B;

"Competitive Standard Service" means a Standard Service the market for which is determined by the Director to be competitive pursuant to paragraph 16B.6;

"Conveyance Standard Service" means a Standard Service the charge for which falls to be determined in accordance with Condition 13.5A;

"Initial Standard Service" means a service which appears on the list of services as agreed between the Director and the Licensee on or before the date on which this Condition comes into force;

"Interested Parties" means those persons (if any), other than the Licensee, with whom, in any particular case, the Director considers it appropriate to consult;

"Major Office" has the meaning given to it in Condition 16;

"Network Components" means the network components specified on the list of network components as agreed between the Director and the Licensee on or before the date on which this Condition comes into force;

"Network Parts" means the network parts specified on the list of network parts as agreed between the Director and the Licensee on or before the date on which this Condition comes into force;

"Non-conveyance Standard Service" means a Standard Service which is not a Conveyance Standard Service;

"Operator" means in relation to each Standard Service any person who has required, and with whom the Licensee is obliged to enter into an agreement to provide, that Standard Service under Condition 13;

"Standard Service" means a service, including, without limitation, a Competitive Standard Service, which an Operator has required from the Licensee and which the Licensee is obliged to provide, or to enter into an agreement to provide, under Condition 13; and

"Transfer Charge" means the charge which is applied by the Licensee to a Business for the provision by the Licensee from another Business to that Business of a Network Component or combination of Network Components or a Network Part or combination of Network Parts;

- (b) references to a charge for a Standard Service shall include (as well as such charge itself) the means of calculating that charge; and

- (c) references to a charge being payable are references to a charge being payable in accordance with an agreement made in pursuance of Condition 13.

CONDITION 17

PROHIBITION ON UNDUE PREFERENCE AND UNDUE DISCRIMINATION

- 17.1 The Licensee shall not (whether in respect of the charges or other terms or conditions applied or otherwise) show undue preference to, or exercise undue discrimination against, particular persons or persons of any class or description (including, in particular, persons in rural areas) as respects:
- (a) the provision by means of any of the Applicable Systems of any telecommunication service (other than a telecommunication service comprised in a Relevant Service) in accordance with an obligation imposed by or under this Licence;
 - (aa) the provision of any Relevant Service;
 - (b) the provision of Maintenance Services in respect of any Limited Maintenance Telecommunication Apparatus or Limited Maintenance Telecommunication System or the maintenance, adjustment or repair of any apparatus in accordance with an obligation imposed by or under this Licence;
 - (c) the connection to any of the Applicable Systems of any telecommunication apparatus or any other system which, in either case, is not and is not to be comprised in any of the Applicable Systems in accordance with an obligation imposed by or under this Licence;
 - (d) the granting of permission to connect such systems or apparatus to, or to provide services by means of, any of the Applicable Systems in accordance with an obligation imposed by or under this Licence; or
 - (e) the Bringing into Service of any apparatus or system which, in either case, is or is to be connected to but not comprised or to be comprised in any of the Applicable Systems, where only the Licensee is permitted to provide such service.
- 17.2 The Licensee may be deemed to have shown such undue preference or to have exercised such undue discrimination if it unfairly favours to a material extent a business carried on by it in relation to the doing of any of the things mentioned in paragraph 17.1 so as to place at a significant competitive disadvantage persons competing with that business.
- 17.3 Any question relating to whether any act done or course of conduct pursued by the Licensee amounts to such undue preference or such undue discrimination shall be determined by the Director, but nothing done in any manner by the Licensee shall be regarded as undue preference or undue discrimination if and to the extent that the Licensee is required to do that thing in that manner by or under any provision of this Licence.

- 17.3A (a) The introduction by the Licensee of tariff changes which result in different percentage increases or decreases for different Relevant Prices shall not be regarded as the showing of undue preference or the exercise of undue discrimination by the Licensee where the requirements set out below are satisfied. Requirements (i) and (ii) shall apply separately to the following classes of services:

provision of services by means of the Licensee's public switched telecommunications network;

provision of services by means of Private Circuits or International Private Circuits.

The requirements are that:

- (i) the effect of tariff changes shall, taken together by class of customer, achieve greater uniformity of the ratios of revenues accruing from different classes of customers for the class of service to the long run incremental costs (or, where those costs cannot be ascertained, the fully allocated costs) of providing the service to those classes of customer;
 - (ii) the revenue accruing in respect of such service shall, for any class of customer, not decrease to an extent which brings it below the incremental cost (as qualified in paragraph 17.3A (a) (i)) to the Licensee of providing that service to that class of customer; and
 - (iii) any combination of charges required to be paid by any class of customer in respect of a service shall not include any call charges in respect of any category of call which, after the date of the coming into force of this paragraph 17.3A, have been decreased so as to be below the cost to the Licensee of conveying the category of call in question.
- (b) In this paragraph 17.3A, "Relevant Price" means any price within any of the definitions of that term contained in Condition 24A.

- 17.4 For the purposes of paragraph 17.1, the things mentioned in paragraph 17.1 (aa) do not include:

- (a) a service consisting only in the reception by a Relevant Applicable System of information from a person other than the Licensee for the purpose of storing that information and making it available as part of a Relevant Service to the generality of customers who have contracted with the Licensee for that Relevant Service, who request access to that information and who pay the Licensee's charges for it; or
- (b) the provision of any Relevant Service by the Licensee in so far as that Relevant Service is provided by means of a telecommunication system

which is of such a description and run in such a way that if it was run by any person other than a public telecommunications operator it could be run under and in accordance with the Class Licence for the running of branch telecommunication systems granted by the Secretary of State.

- 17.5 For the purposes of paragraph 17.2, the things mentioned in paragraph 17.1 shall include the things mentioned in paragraph 17.4.
- 17.6 In this Condition, "Relevant Applicable System" has the same meaning as in Condition 18.

CONDITION 17A

DIFFERENTIAL CHARGING

- 17A.1 This Condition applies to the Licensee's charges for doing any of the things mentioned in Condition 16.1 (a) (i) to (v) when those charges vary or may vary:
- (a) according to whether the Licensee does any other thing so mentioned for the customer in question; or
 - (b) according to the extent to which it does any of those things for that customer.
- 17A.2 In relation to any charge to which this Condition applies the Licensee will be deemed not to show undue discrimination or undue preference for the purposes of Condition 17 if in respect of that charge, the Licensee complies with guidelines to be issued by the Director as agreed with the Licensee on or before the coming into effect of this Condition. Such guidelines shall specify the levels above or below which any such charge or combination of charges may be set, and may only be varied or revoked by agreement with the Licensee.

CONDITION 17B

PROHIBITION ON UNDUE PREFERENCE AND UNDUE DISCRIMINATION - QUALITY OF SERVICE

- 17B.1 Without prejudice to Conditions 17 and 17A, the Licensee shall not show undue preference to, or exercise undue discrimination against, an Operator in respect of the Quality of any Standard Service or any Private Circuit provided by the Licensee to that Operator under any agreement between them.
- 17B.2 The Licensee may be deemed to have shown such undue preference or to have exercised such undue discrimination if it unfairly favours a Business in relation to the Quality of:
- (i) a Network Service compared with the provision to an Operator of a Standard Service which is the same as that Network Service, or comprises the same combination of Network Components or Network Parts, as the case may be, as are used in the provision of, that Network Service; or
 - (ii) a Private Circuit Service compared with the provision to an Operator of a Private Circuit; or
 - (iii) a Standard Service comprising, inter alia, the establishment, maintenance or alteration of Network Connecting Apparatus if the performance of any such establishment, maintenance or alteration activity is materially different from the performance of a comparable activity elsewhere in the Licensee's System Business;
- so as to place an Operator competing with that Business at a significant competitive disadvantage.
- 17B.3 Any question relating to whether any act done or course of conduct pursued by the Licensee amounts to such undue preference or such undue discrimination shall be considered by, and, if appropriate, be determined by the Director, but nothing done in any manner by the Licensee shall be considered or determined to be undue preference or undue discrimination if and to the extent that the Licensee is required to do that thing in that manner by or under any provision of this Licence.
- 17B.4 (a) Before making a determination under this Condition, the Director shall consult with the Licensee and Interested Parties. If he considers that a determination is appropriate he shall notify the Licensee and Interested Parties of the proposed determination and his reasons for proposing to make it and give each of them a reasonable opportunity to make representations. On making a determination he shall notify the Licensee and Interested Parties of the determination and his reasons for making it.

(b) Each notification of reasons shall, as appropriate, set out the Director's reasons:

(i) for proposing to make the determination; or

(ii) for making the determination;

those reasons being sufficient to give the Licensee and Interested Parties a reasonable understanding of the proposed decision or decision, as the case may be.

17B.5 In this Condition:

"Business" has the meaning given to it in Condition 20B;

"Interested Parties" has the meaning given to it in Condition 16B;

"Network Components" has the meaning given to it in Condition 16B;

"Network Parts" has the meaning given to it in Condition 16B;

"Network Service" means a service which the Licensee is providing to a Business which is the same as or comprises the same combination of Network Components or Network Parts, as the case may be, as a Standard Service;

"Operator" means:

(a) in relation to a Standard Service, any person who has required, and with whom the Licensee is obliged to enter into an agreement to provide, that Standard Service under Condition 13; or

(b) in relation to a Private Circuit, any person who has required, and with whom the Licensee is obliged to enter into an agreement to provide, that Private Circuit;

"Private Circuit" means a Private Circuit to which Condition 46 relates;

"Private Circuit Service" means a service which the Licensee is providing to a Business which provides the same functionality and has the same characteristics as a Private Circuit;

"Quality" means the effect of the performance of the relevant service in a manner which, given the purpose for which it was provided, determines the degree of satisfaction of a user of that service, and, for the avoidance of doubt, does not include the charge for that service; and

"Standard Service" has the meaning given to it in Condition 16B.

CONDITION 17C

QUALITY OF SERVICE - QUALITY SCHEDULE

- 17C.1 The Licensee shall publish the results of the measurements of actual performance against the Target Performance specified in the Quality Schedule which it has achieved in providing the Standard Services and Private Circuits specified in the Quality Schedule to the Operators specified in that Schedule.
- 17C.2 For the purposes of paragraph 17C.1:
- (a) the Licensee shall publish the results of those measurements at regular intervals, being not less than once in each financial year of the Licensee, the first publication to take place in the financial year of the Licensee ending 31 March 1996; and
 - (b) publication shall be effected by sending to the Director a document setting out the results referred to in paragraph 17C.1 (the "Quality of Service Report").
- 17C.3 Following publication pursuant to paragraph 17C.2:
- (a) subject to sub-paragraph (c), the Licensee shall send a copy of the most recent Quality of Service Report to any person who may request it on payment of a reasonable charge for it, within seven working days after receiving payment of that charge provided that such person agrees in writing with the Licensee to use the Quality of Service Report and its contents for the purpose only of noting the extent to which the Licensee has achieved its Target Performance;
 - (b) the Licensee shall make available and continue to make available in a publicly accessible part of every Major Office of the Licensee in the place as is required by Condition 16.3 (b) a notice of the address and telephone number of the person to whom any request for a copy of the most recent Quality of Service Report may be made; and
 - (c) the Licensee shall:
 - (i) be entitled to exclude from any Quality of Service Report which it is obliged to send to any person who may request one pursuant to sub-paragraph (a) any matter to the exclusion of which the Director shall have consented following representations to him on the matter by the Licensee on the basis that if the matter were made available in accordance with sub-paragraph (a) it would or might, in the opinion of the Director, seriously and prejudicially affect the interests of the Licensee; and
 - (ii) shall extract from that Quality of Service Report any matter which the Director directs should be excluded.

17C.4 Notwithstanding paragraph 6 of Part 1 of Schedule 1, the Licensee shall offer to include, as a minimum, in each agreement between the Licensee and an Operator for the provision of any Standard Service or any Private Circuit, or both, which is or are included in the Quality Schedule whether subsisting before the date on which this Condition comes into force or otherwise:

- (a) a description of the Target Performance specified from time to time in the Quality Schedule in relation to each such Standard Service and Private Circuit; and
- (b) an obligation on the Licensee to that Operator to use reasonable endeavours to achieve that Target Performance in relation to each such Standard Service or Private Circuit provided to that Operator pursuant to the relevant agreement;

provided that such offer shall not be conditional on the acceptance by that Operator of the inclusion in that agreement of any other terms and conditions whether relating to that Target Performance or otherwise, except for terms or conditions which are necessarily incidental to the attaining of the Target Performance.

17C.5 Subject to paragraph 17C.6, the Quality Schedule may be amended as the Director and the Licensee agree from time to time. In addition, the Licensee shall ensure that the Quality Schedule is kept under review and shall prepare and submit to the Director any amendments which it proposes from time to time to make to the Schedule to take account of technological progress or other relevant considerations provided that the Licensee shall not be obliged to review the Schedule more than once in each financial year, the first such review to take place in the financial year ending 31 March 1996. The Director shall then, if he considers it appropriate to do so, consult with Interested Parties as to the proposed amendments and give them a reasonable opportunity to make representations. If the Director, following any period of consultation, consents to the Licensee's proposed amendments the Licensee shall adopt them, but if the Director does not consent to the proposed amendments, the Licensee may, subject to its obligations contained in this paragraph, withdraw them.

17C.6 (a) Where the Director has reasonable grounds to believe that the Licensee:

- (i) has, within the previous three years (excluding any period falling before the date on which this Condition comes into force), shown undue preference to, or exercised undue discrimination against, any Operator in respect of the Quality of a Standard Service or Private Circuit or both, contrary to the provisions of Condition 17 or Condition 17B or both, and has ceased to do so but is likely to repeat that undue preference or undue discrimination at any time in the future; or

- (ii) is showing undue preference or undue discrimination as described in sub-paragraph (a) (i);

or both, and has notified the Licensee of those reasonable grounds, the Licensee shall, without prejudice to Condition 52, extend to the Director, his representatives and members of his staff such prompt co-operation as the Director may reasonably request in order to investigate the matter and, in particular, on request by the Director shall:

- (aa) furnish to the Director in accordance with his reasonable requirements any information, documents, accounts, estimates, returns, reports or other relevant information (including, without limitation, any facility enabling him to read data not held in readable form);
 - (bb) on reasonable notice by him allow at all reasonable times the Director, his representatives and any member of his staff on production of his special authority, access to any relevant premises of the Licensee to investigate, assess, examine, review or verify any of its relevant records, systems or processes; and
 - (cc) for the purpose of sub-paragraph (bb), allow the Director, his representatives and any member of his staff to be accompanied by any person whom the Director may specify, and to whom the Licensee has raised no reasonable objection, whose assistance he might reasonably require provided that the Director has given the Licensee notice (save in exceptional circumstances) of at least 5 working days of the identity of that person.
- (b) If, as a result of any investigation, assessment, examination or review referred to in sub-paragraph (a), the Director is satisfied that the Licensee has done or is doing any of the things referred to in sub-paragraph (a) (i) and (ii) or he has insufficient information to conclude whether or not the Licensee has done or is doing any of the things referred to in sub-paragraph (a) (i) and (ii), he may direct with effect from the date specified in the direction (not being a date earlier than the date of the direction), without prejudice to his other powers under this Licence, that the Quality Schedule shall be amended, provided that any direction given pursuant to this paragraph shall relate to the results of the relevant investigation, assessment, examination or review referred to in sub-paragraph (a) in respect of which the direction is given and shall not require any change to the Quality Schedule beyond that reasonably required to remedy or prevent the undue preference or undue discrimination, or to remedy any defect in the procedures set out in the Quality Schedule, which shall have given rise to the lack of information revealed by the relevant investigation.

- 17C.7 (a) Before giving a direction or consent under this Condition, the Director shall consult with the Licensee and Interested Parties. If he concludes

SCHEDULE 1

PART 3: OTHER CONDITIONS INCLUDED UNDER SECTION 7 OF THE ACT.

CONDITION 18

PROHIBITION ON CROSS-SUBSIDIES

18.1 Where it appears to the Director that the Licensee is unfairly cross-subsidising or unfairly subsidising:

- (i) the Apparatus Supply Business, insofar as that Business is carried on in the United Kingdom;
- (ii) the production of telecommunication apparatus by the Apparatus Production Company insofar as that apparatus is produced for supply in the United Kingdom and the supply of such apparatus by that Company in the United Kingdom;
- (iii) the provision in the United Kingdom of Land Mobile Radio Services;
or
- (iv) the Supplemental Services Business;

it shall take such steps as the Director may direct for the purpose of remedying the situation.

18.2 The Licensee shall record, except where the Director agrees otherwise, at full cost in its accounting records, any material transfer between any part of the Licensee's business and:

- (a) any of the businesses mentioned in paragraph 18.1 (i) to (iii) as soon as reasonably practicable and in any event not later than 1 April 1987; and
- (b) the Supplemental Services Business as soon as reasonably practicable and in any event not later than 1 April 1988.

18.3 In this Condition:

"Apparatus Production Company" has the same meaning as in Condition 21;

"Apparatus Supply Business" means the following activities of the Licensee or of any Wholly Owned Subsidiary taken together:

- (a) the supply of any telecommunication apparatus neither comprised nor to be comprised in any of the Applicable Systems; and

- (b) the installation, maintenance, adjustment, repair, alteration, moving, removal or replacement of any telecommunication apparatus where those activities are not part of the Systems Business nor part of the Supplemental Services Business;

but does not include the supply by the Apparatus Production Company of telecommunication apparatus produced by it;

“Land Mobile Radio Service” means any telecommunication service provided by wireless telegraphy for reception by means of apparatus which is or is to be used while in motion, but does not include services of a kind provided under Conditions 8 and 12;

“Relevant Applicable System” means that part of any of the Applicable Systems (other than a fixed link) which is used for the purpose of providing a Relevant Service provided by the Licensee, but only to the extent that it is so used;

“Supplemental Services Business” means the following activities of the Licensee taken together:

- (a) the provision in the United Kingdom by the Licensee of Relevant Services;
- (b) the running of any Relevant Applicable System;
- (c) the installation, maintenance, adjustment, repair, alteration, moving, removal or replacement of any apparatus comprised or to be comprised in a Relevant Applicable System; and
- (d) the conveyance of Messages by means of any Relevant Applicable System or by means of any fixed link which has been made available by the Systems Business to the Supplemental Services Business for the purpose of providing a Relevant Service;

“Systems Business” means the following activities of the Licensee or of any Wholly Owned Subsidiary to the extent that they are undertaken in the United Kingdom taken together:

- (a) the running of the Applicable Systems except where it is part of the Supplemental Services Business;
- (b) the installation, maintenance, adjustment, repair, alteration, moving, removal or replacement of any apparatus comprised or to be comprised in any of those Systems where those activities are not part of the Supplemental Services Business;
- (c) without prejudice to the generality of sub-paragraph (a) or (b) the Bringing into Service of any item of telecommunication apparatus or telecommunication system connected or to be connected to any of the

Applicable Systems whether comprised in any of those Systems or not; and

- (d) without prejudice to the generality of sub-paragraph (a) the conveyance of Messages (not including switching) by means of any of the Applicable Systems and switching incidental to such conveyance where such conveyance is not part of the Supplemental Services Business.

18.4 For the purposes of this Condition:

- (a) “supply” and “provision” include supply or provision in the course of one business of the Licensee for the purposes of another such business notwithstanding that there is no supply or provision to any other person;
- (b) a transfer from one business to another business or a company takes place when any thing (including any service or money) produced or acquired by, normally used in, or otherwise at the disposal of, the first mentioned business is made available for the purposes of the other business or the company; and
- (c) “full cost” in the case of money transferred includes the market rate of interest for that money.

18.5 This Condition shall apply with the omission of paragraph 18.1 (i) if and for so long as the supply of telecommunication apparatus by the Licensee does not constitute a monopoly situation within the meaning of section 6 of the Fair Trading Act 1973.

18.6 In considering whether any cross-subsidy of the Supplemental Services Business is unfair, the Director shall have regard to the extent to which the Licensee cross-subsidised that Business for the purpose of satisfying any obligation imposed on it by Condition 1, 2, 3 or 12.

CONDITION 19

ACCESS CHARGES

19.1 Notwithstanding the prohibitions made in or under Conditions 17 and 18 and without prejudice to the Licensee's other powers to impose charges in any circumstances or to organise its internal finances in any way, the Licensee may impose upon a person running a Relevant Connectable System who provides Connection Services to others a charge for the provision of telecommunication services by means of a connection to one of the Applicable Systems (an "Access Charge") provided that all the conditions set out in paragraph 19.2 are fulfilled.

19.2 The said conditions are that:

- (a) the Access Charge, or the method adopted for determining it, is the same for all such persons;
- (b) the Licensee has furnished to the Director particulars of the Access Charge or the method adopted for determining it and either:
 - (i) the Director has approved that Charge or that method; or
 - (ii) he has failed to give written notice of his disapproval within a period of 6 months; and
- (c) the Licensee has made arrangements which as nearly as practicable secure that:
 - (i) all persons to whom there are provided by means of an Applicable System services, for which Access Charges would have been levied on a person under paragraph 19.1 if they had been provided by means of a Relevant Connectable System, are required to pay charges at least equal to the Access Charges which would have been so payable; and
 - (ii) the estimated proceeds of the charges referred to in paragraphs 19.1 and 19.2 (c) (i) are used exclusively to defray:
 - (a) costs (less any revenue received) incurred in providing services or supplying apparatus in accordance with Conditions 3, 5, 6, 11, 31, 32 and 33;
 - (b) losses which the Director is satisfied are reasonably incurred as a consequence of fulfilling an obligation imposed under Condition 1 or 2 in any area which the Director is satisfied is a proper one to be taken into account for the purposes of this Condition; and

- (c) payments made by the Licensee in discharge of its obligations under Condition 31A and any arrangement entered into thereunder with a Relay Service Provider.

19.3 In this Condition, "Relay Service Provider" has the same meaning as in Condition 31A.

CONDITION 20

SEPARATE ACCOUNTS FOR CERTAIN ACTIVITIES

20.1 This Condition applies for the purpose of ensuring that the Licensee establishes as soon as reasonably practicable and in any event not later than 1 April 1987 accounting and reporting arrangements sufficient to enable the Licensee's finances in relation to the Systems Business and the Apparatus Supply Business to be assessed and reported on separately both from each other and from the other activities of the Licensee and for the purposes of ensuring that the Licensee establishes as soon as reasonably practicable and in any event not later than 1 April 1988 accounting arrangements sufficient to enable the Licensee's finances in relation to the Supplemental Services Business to be assessed separately from the other activities of the Licensee.

20.2 The Licensee shall:

- (a) maintain accounting records in such a form that the activities of the Supplemental Services Business, the Systems Business and the Apparatus Supply Business are separately identifiable or separately attributable in the books of the Licensee, being records sufficient to show and explain the transactions of each of those Businesses;
- (b) prepare in respect of each complete financial year of the Licensee, or of such lesser periods as the Director may specify but not more frequently than quarterly, accounting statements setting out, and, in the case of yearly statements, fairly presenting, the costs (including capital costs), revenue and financial position of each of the Systems Business and the Apparatus Supply Business and including a reasonable assessment of the assets employed in and liabilities attributable to each of them and showing separately, in the case of yearly accounting statements, the amount of any material item of revenue, cost, asset or liability which has been either:
 - (i) charged from or to any other business of the Licensee together with a description of the basis of the value on which the charge was made; or
 - (ii) determined by apportionment or attribution from an activity common to the Business and any other business of the Licensee and, if not otherwise disclosed, the basis of the apportionment or attribution;
- (c) procure in respect of each of those accounting statements prepared in respect of a complete financial year of the Licensee a report by the Licensee's Auditor stating whether in his opinion that statement is adequate for the purposes of this Condition; and
- (d) deliver to the Director a copy of each of the accounting statements and of the reports relating thereto required under sub-paragraphs (b) and

(c) above as soon as reasonably practicable and in any event not later than six months after the end of the period to which they relate.

20.3 Accounting statements prepared under paragraph 20.2 (b) in respect of each financial year shall, so far as reasonably practicable, be prepared in the formats and in accordance with the accounting principles and rules which apply to the annual accounts of the Licensee and shall state the accounting policies used.

20.4 For the purposes of this Condition the Licensee shall be free to treat the Apparatus Supply Business as not including any business relating to the supply of apparatus outside the United Kingdom but when it does so it shall inform the Director.

20.5 Subject to paragraph 20.4, in this Condition:

“the Applicable Systems” include any systems which the Director agrees should be treated as Applicable Systems for the purposes of this Condition;

“the Auditor” means the Licensee’s auditor for the time being appointed in accordance with the requirements of the Companies Acts 1948 to 1983; and

references to the costs of any business do not include profits of that business.

CONDITION 20A

BASES AND PUBLICATION OF ACCOUNTS

20A.1 The Licensee shall publish accounts for the Licensee's Group on a current cost basis relating to its 1993-94 financial year and each succeeding complete financial year. If the Licensee so requests, the Director may determine that the accounts required by this paragraph may be for other than the Group.

20A.2 The Licensee shall procure in respect of the accounts required by paragraph 20A.1 a report by the Licensee's Auditor stating that the auditor has examined the accounts and stating whether in his opinion the accounts have been properly prepared in accordance with the current cost principles, accounting policies and methods as described in the notes to the accounts.

20A.3 Paragraph 20A.1 is without prejudice to the manner in which the Licensee discharges the obligations relating to the preparation of accounts imposed on it by the Companies Act 1985.

20A.4 The Licensee shall prepare in respect of each complete financial year accounting statements on a current cost basis setting out and fairly presenting the costs (including capital costs), revenue and financial position of the Systems Business, and including a reasonable assessment of the assets employed in, and liabilities attributable to, that Business, and showing separately the amount of any material item of revenue, cost, asset or liability which has been either:

- (i) charged from or to any other business of the Licensee together with a description of the basis of the value on which the charge was made; or
- (ii) determined by apportionment or attribution from an activity common to the Business and any other business of the Licensee and, if not otherwise disclosed, the basis of the apportionment or attribution;

and shall:

- (a) for the 1994-95 financial year and each succeeding complete financial year procure a report by the Licensee's Auditor stating that the Auditor has examined the accounting statements and stating whether in his opinion those statements have been properly prepared in accordance with the current cost principles, accounting policies and methods as described in the notes to the accounting statements and are consistent with the accounts published under paragraph 20A.1; and
- (b) deliver to the Director a copy of those accounting statements and of the report relating thereto, when applicable, as soon as reasonably practicable and in any event not later than six months after the end of the period to which they relate.

CONDITION 20B

SEPARATE ACCOUNTS

20B.1 The whole purpose of this Condition is:

- (a) to ensure that the Licensee does not unfairly subsidise or unfairly cross-subsidise or show undue preference or exercise undue discrimination; and
- (b) to assist the Director, in pursuance of his functions in that respect under this Licence, to determine charges to be payable to the Licensee by an Operator which are properly and transparently derived from relevant costs.

20B.1A (a) Subject to paragraph 20B.18:

- (i) the composition of each Business in terms of any or all of the revenues, costs or assets it comprises may be amended; and
- (ii) each Business may be divided to create one or more additional Businesses or aggregated to create one or more fewer Businesses;

as the Director and the Licensee agree from time to time in writing.

- (b) Each Business shall be disaggregated in terms of the activities of the Business on the basis agreed between the Licensee and the Director on or before the date on which this Condition comes into force. Subject to paragraph 20B.18, that disaggregation may be amended by agreement in writing between the Licensee and the Director.

20B.2 The Licensee shall establish sufficient accounting and reporting arrangements to comply with its obligations under this Condition.

20B.3 (a) The Licensee shall maintain accounting records in a form:

- (i) which enables each Business and, insofar as it has been disaggregated in terms of activities of the Business, each of the activities of that Business, to be separately identified or the costs, revenues and assets of each Business and, insofar as it has been disaggregated in terms of activities of the Business, the costs, revenues and assets of each of those activities, to be separately attributable, on an historic cost basis;
- (ii) which enables each Business, or one or more Businesses taken together as agreed between the Director and the Licensee in writing from time to time, to be separately identified or the costs, revenues and assets of each Business, or one or more Businesses taken together as agreed between the Director and

the Licensee in writing from time to time, to be separately attributable, on a current cost basis; and

(iii) which shows and explains the transactions of each Business and, insofar as it has been disaggregated in terms of activities of the Business, the transactions of each of the activities of that Business.

(b) The accounting records referred to in sub-paragraph (a) shall be kept in a form which enables the Licensee to prepare the Financial Statements, the Restated Financial Statements (both as defined in paragraph 20B.4) and the Interim Financial Statements (as defined in paragraph 20B.8):

(i) in the case of each Business, on an historic cost basis; and

(ii) in the case of each Business, or one or more Businesses taken together as agreed between the Director and Licensee in writing from time to time, on a current cost basis;

which comply, in each case, with the requirements of this Condition.

(c) Records sufficient to provide an adequate explanation of each Financial Statement, each Restated Financial Statement and each Interim Financial Statement shall be preserved by the Licensee for a period of six years from the date on which they were made.

20B.4 (a) The Licensee shall prepare in accordance with paragraph 20B.5, in respect of each of its financial years, beginning with the financial year ending 31 March 1995, a financial statement:

(i) on an historic cost basis, in respect of each Business and, insofar as it has been disaggregated in terms of activities of the Business, each activity of that Business; and

(ii) on a current cost basis, in respect of each Business or, if the Director and the Licensee so agree from time to time, one or more Businesses taken together;

(each a "Financial Statement" and together the "Financial Statements").

(b) Each Financial Statement prepared for the purposes of sub-paragraph (a) (i) above shall comprise:

(i) a statement of fully allocated costs calculated on a basis which is not inconsistent with the Licensee's statutory accounts for the relevant financial year;

- (ii) a profit and loss account, a statement of mean capital employed, statements of costs (if applicable) and additional information to be provided by way of notes for the relevant financial year; and
 - (iii) an explanation and reconciliation of any differences between the statement mentioned in sub-paragraph (i) above and the matters mentioned in sub-paragraph (ii) above.
- (c) Each Financial Statement prepared for the purposes of sub-paragraph (a) (ii) above shall comprise a profit and loss account, a statement of mean capital employed, statements of costs (if applicable) and additional information to be provided by way of notes for the relevant financial year.
 - (d) Following the recalculation and redetermination of the charge (or the means of calculating that charge) for or in respect of each Standard Service (other than a Competitive Standard Service) payable in a financial year after the end of that financial year pursuant to Condition 13, the Licensee shall prepare a restatement of each Financial Statement for that financial year to take account of that recalculation and redetermination (each a "Restated Financial Statement" and together the "Restated Financial Statements").

20B.5 (a) The Licensee shall ensure that each Financial Statement and Restated Financial Statement shall:

(i) be prepared as to the form and content of:

(aa) the profit and loss account;

(bb) the statement of mean capital employed; and

(cc) the statements of costs (if applicable);

as the Licensee and the Director shall have agreed, on or before the date on which this Condition comes into force together with such additional information to be provided by way of notes as the Licensee and the Director shall from time to time agree;

(ii) be prepared, except in the case of those parts of each Financial Statement prepared in accordance with paragraph 20B.4 (b) (i) and (iii), in accordance with the Accounting Documents and insofar as there is any inconsistency between any or all of the Accounting Documents, the Licensee shall ensure that each Financial Statement shall be prepared in accordance with the Accounting Documents in the following order of priority:

(aa) the Regulatory Accounting Principles;

(bb) the Attribution Methods;

- (cc) the Transfer Charging System; and
- (dd) the Accounting Policies; and
- (iii) subject to sub-paragraph (ii), in the case of the Financial Statements prepared on:
 - (aa) an historic cost basis, be reconciled with the annual statutory financial statements and that reconciliation shall be demonstrated and explained;
 - (bb) on a current cost basis, be:
 - (A) reconciled with the accounts which the Licensee is required to publish under Condition 20A and that reconciliation shall be demonstrated and explained; and
 - (B) reconciled with the Financial Statements prepared on an historic cost basis for the corresponding financial year and that reconciliation shall be demonstrated and explained.
- (b) Subject to paragraph 20B.18, the form and content referred to in sub-paragraph (a) (i) may be amended as the Director and the Licensee agree from time to time in writing.

20B.6 The Licensee shall procure in respect of each Financial Statement and Restated Financial Statement for each Business an audit report by the Auditor which shall conform to Auditing Standards in which he shall state whether in his opinion:

- (a) the Financial Statement or the Restated Financial Statement, as the case may be, complies with the requirements of paragraph 20B.5;
- (b) the Financial Statement or the Restated Financial Statement, as the case may be, prepared on an historic cost basis fairly presents in accordance with the Accounting Documents:
 - (i) in the case of the profit and loss account, the results of the relevant Business or, insofar as it has been disaggregated in terms of activities of the Business, of the relevant activity of that Business, for the relevant financial year;
 - (ii) in the case of the statement of mean capital employed, the mean capital employed of the relevant Business or, insofar as the Business has been disaggregated in terms of activities of the Business, of the relevant activity of that Business, for the relevant financial year; and

(iii) in the case of the statements of costs (if any), the costs incurred by the relevant Business or, insofar as the Business has been disaggregated in terms of the activities of the Business, by the relevant activities of that Business, for the relevant financial year; and

(c) the Financial Statement or the Restated Financial Statement, as the case may be, prepared on a current cost basis is properly prepared in accordance with the Accounting Documents.

20B.7 (a) The Licensee shall, except in so far as the Director may consent:

(i) publish the 1994 Financial Statements as soon as practicable, and, in any event, not later than four months after the date on which this Condition comes into force;

(ii) publish the Financial Statements prepared on an historic cost basis:

(aa) for the financial year ending 31 March 1995, as soon as practicable, and, in any event, not later than six months, after the end of the period to which they relate;

(bb) for each subsequent financial year, within two months after the date on which the Licensee's annual statutory financial statements are published and, in any event, within four months after the end of the period to which they relate;

(iii) publish the Financial Statements prepared on a current cost basis:

(aa) for the financial year ending 31 March 1995, as soon as practicable and, in any event, not later than eight months after the end of the period to which they relate; and

(bb) for each subsequent financial year, as soon as practicable, and, in any event, not later than two months, after the date on which the Financial Statements for the same financial year prepared on an historic cost base are published; and

(iv) publish the Restated Financial Statements as soon as practicable, and, in any event, not later than two months after the date on which the Director recalculates and redetermines the charge (or the means of calculating that charge) for each Standard Service (other than a Competitive Standard Service) payable in a financial year after the end of that financial year pursuant to Condition 13 provided that the requirements of this paragraph shall be suspended pending the final disposal of any proceedings

seeking to have any such recalculations and redeterminations quashed, set aside, modified or varied;

together, in each case, with the relevant Auditor's report as required under paragraph 20B.6.

- (b) For the purposes of sub-paragraph (a), publication shall be effected by making the relevant Financial Statements and Restated Financial Statements together with the relevant Auditor's reports (if applicable) publicly available and by sending copies to the Director.
- (c) The Licensee shall send a copy of the Financial Statements and Restated Financial Statements together with the relevant Auditor's report (if applicable) to any person who may (after they have been published pursuant to sub-paragraph (a)) request them, on the basis of that person paying a reasonable charge for them. The Licensee shall send the copies within seven working days after receiving payment of that charge.
- (d) The Licensee shall make available and continue to make available in a publicly accessible part of every Major Office of the Licensee in the place as is required by Condition 16.3 (b) a notice of the address and telephone number of the person to whom any request for a copy of any or all of the Financial Statements and Restated Financial Statements together with the relevant Auditor's reports or any part of them may be made.

20B.8 In addition to the requirements of paragraph 20B.4, the Licensee shall, in respect of each of its financial years, prepare on an historic cost basis a financial statement for each six month period ending 30 September, beginning with the six months ending 30 September 1995, in respect of each Business and, insofar as it has been disaggregated in terms of activities of the Business, each activity of that Business (each an "Interim Financial Statement" and together the "Interim Financial Statements"). Each Interim Financial Statement shall comprise a profit and loss account, a statement of mean capital employed, statements of costs (if applicable) and additional information to be provided by way of notes for the relevant period.

20B.9 The provisions of paragraphs 20B.4 (b) (i), (ii) and (iii) and 20B.5 (a) (i) and (ii) shall apply to Interim Financial Statements as they apply to Financial Statements and Restated Financial Statements with the substitution for references to Financial Statements and Restated Financial Statements of references to Interim Financial Statements. In addition, the Licensee shall ensure that the Interim Financial Statements shall be reconciled with the interim results of the Licensee for the same period and that reconciliation shall be demonstrated and explained.

20B.10 The Licensee shall procure in respect of each Interim Financial Statement for each Business an interim report by the Auditor in which he shall: